



*United States Attorney
Southern District of New York*

FOR IMMEDIATE RELEASE
September 13, 2005

CONTACT: U.S. ATTORNEY'S OFFICE
HERBERT HADAD, MEGAN GAFFNEY
HEATHER TASKER, BRIDGET KELLY
PUBLIC INFORMATION OFFICE
(212) 637-2600

**U.S. SETTLES FALSE CLAIMS ACT LAWSUIT ALLEGING ILLEGAL
MEDICAID PATIENT REFERRAL SCHEME**

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, announced today that on September 9, 2005, the Government filed a civil complaint against APPLIED CONSULTING, INC. ("CONSULTING") and APPLIED CASEMANAGEMENT, INC. ("CASEMANAGEMENT"). The complaint alleges that CONSULTING and CASEMANAGEMENT entered into illegal patient referral schemes with three hospitals, and then falsely billed Medicaid for the care of these illegally-referred patients. Mr. GARCIA also announced that, simultaneous with filing its Complaint, the Government entered into a settlement agreement resolving its claims against CONSULTING and CASEMANAGEMENT. While denying any wrongdoing in the settlement agreement, CONSULTING and CASEMANAGEMENT have agreed to pay the Government \$2.75 million over the next three years to settle the Government's claims against them.

United States District Judge KIMBA M. WOOD approved the settlement today in Manhattan federal court.

The allegations of fraud were first brought to the attention of the Government by a whistle-blower, who filed a complaint under the qui tam provisions of the False Claims Act. The qui tam provisions of the False Claims Act permit the Government to intervene in cases originally commenced by private parties who have knowledge of fraud committed against the Government. Under these provisions, there can be liability both for knowingly submitting false or fraudulent claims or for knowingly causing another to do so.

The Government alleged in its Complaint that beginning in 1997, CONSULTING and CASEMANAGEMENT entered into illegal patient referral schemes with The Mount Vernon Hospital ("MOUNT VERNON"), Catskill Regional Medical Center ("CATSKILL"), and another hospital in the New York City area under the guise of "administrative services agreements." Under these agreements, the hospitals paid between \$50,000 and \$73,000 per month to CONSULTING and CASEMANAGEMENT to provide 22 separate administrative services to the hospitals' alcohol and substance abuse treatment and detoxification units, including patient referrals. The Complaint alleged that, other than patient referrals, the administrative services under the contracts were not needed by the hospitals, were not provided by CONSULTING and CASEMANAGEMENT, or were worthless. Thus, the administrative services agreements amounted to nothing more than patient

referral contracts. Referral of patients for a fee violates the New York State Medicaid regulations and state and federal anti-kickback statutes.

The Complaint further alleged that the hospitals thereafter billed the Medicaid program for the treatment they provided to the illegally-referred patients. As alleged in the Complaint, the claims that the hospitals presented to Medicaid were false or fraudulent in that the hospitals certified to the Government that it had provided the services in compliance with all laws and regulations. According to the Complaint, from 1997 to 2004, the hospitals treated hundreds of illegally-referred patients, and thereby submitted or caused to be submitted hundreds of false claims to Medicaid.

The Complaint also alleged that CASEMANAGEMENT referred patients to MOUNT VERNON knowing that MOUNT VERNON was not certified by the New York State Office of Alcoholism and Substance Abuse Services to provide inpatient alcohol detoxification services. New York State Medicaid regulations prohibit entities from billing Medicaid for medical services that the entities are not licensed to provide. Thus, the Complaint alleged, CASEMANAGEMENT knowingly caused MOUNT VERNON to submit false claims to Medicaid for the services it provided to patients in its detoxification unit because MOUNT VERNON was never legally permitted to submit those claims at all.

Both MOUNT VERNON and CATSKILL previously entered into settlements with the Government providing for the payment of \$2.65 million over five years, and \$1.5 million over three years, respectively. In connection with those settlements, the hospitals also entered into corporate integrity agreements with the Office of Inspector General of the Department of Health and Human Services, which are aimed at ensuring that their participation in the Federal health care programs is in conformity with the statutes, regulations and other directives applicable to those programs.

Mr. GARCIA stated: "This settlement demonstrates the federal government's commitment to combat health care fraud, and the high price to be paid for scamming federal funds."

Mr. GARCIA praised the investigative efforts of the Federal Bureau of Investigation and the Department of Defense Inspector General's Defense Criminal Investigative Service.

Assistant United States Attorney RAMON E. REYES, JR. is in charge of the case.

05-205

###